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U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
HOUSE AGRICULTURE COMMITTEE
MARCH 1, 1979

I appreciate the invitation to appear before you today to present the Administration's view on H.R. 2172.

I want to commend you on the thought and the effort that have gone into this bill. It is a very good piece of work. We support its general purpose and can support many of its provisions. However, before discussing the sections of your bill, I want to take a few minutes to discuss the current situation we face with regard to sugar.

To be brutally frank, the situation is critical.

World sugar prices are depressed. They remain below production costs for even the most efficient producers. Moreover, world stocks are in record proportion to the annual consumption requirement.

The International Sugar Agreement (ISA), designed to bring much-needed stability to the world sugar market, is still not fully operative. The United States, one of the nations instrumental in formulating this agreement, still has not ratified it. By letting this situation continue, we seriously jeopardize the already-shaky world sugar market, our relations with the other signatory nations and the survival of the agreement itself.

o We participated actively in the negotiation of the ISA. It offers the best hope for moderating the extremes which have characterized the world market.

o Our commitment to the ISA represents a policy of approaching world sugar problems <u>together</u> with the other sugar producing countries, rather than shifting the burden to them. Our failure to implement the

ISA would strain our relations with the more-than-50 other nations which have already signed. Many of these are developing countries; those which would feel the impact most strongly are Latin American countries.

o Failure to ratify would almost certainly result in the agreement coming apart. In the near term, a weakening of the ISA would result in a significant decline in the sorely needed foreign exchange earnings of developing nations.

o Moreover, with a sudden release of the already-accumulating ISA stocks, conditions in the world sugar market would further deteriorate. Over the long-term, the price-moderating potential of the ISA would be lost. The world sugar price cycle would again flourish, bringing extremely low prices some years and very high prices in others.

Our domestic sugar program faces serious problems.

o While we have had a 15-cent market price objective since January, the objective was not reached until February 9, as excess supplies limited the ability of current fees and duties to protect the 15-cent price. Furthermore, if world prices were to fall much below this winter's levels, we do not have the authority to adjust these duties and fees to the level necessary to achieve that price objective.

o Low market prices, the Congressionally-mandated minimum loan level of 14.73 cents for 1978, and the current 7-percent interest charge on these loans, make it more profitable for many producers to forfeit than redeem 1978-crop sugar under loan. The Commodity Credit Corporation (CCC) already owns $50.5 million worth of 1977 crop sugar; that total could exceed about $55 million. We expect nearly $800 million worth of 1978-crop sugar to be put under loan and some of that will also be forfeited unless the market price increases or new legislative authority is obtained.

o A result of this situation is that domestic users find it more profitable to use imported sugar while domestic sugar is going into government ownership. When the CCC sugar is subsequently sold, imports will be displaced. In both cases, unnecessary and unwise economic dislocations result.

o Some CCC-owned sugar will go out of condition this year and will be sold at a loss. The rest cannot be sold unless the market price rises above the current market price objective.

o While the 1978 loan program supports prices and incomes for sugar producers, it offers minimal wage protection for sugar workers. Only producers who use the loan program are required to pay above minimum wages, and there is inadequate provision for enforcement of even the existing minimum wage standards.

o The January planting intentions report indicates sugar beet acreage will be reduced 11 percent in 1979. The U&I sugar company has announced its intention to cease operations in four sugar beet plants in Utah, Idaho and Washington. It now appears that with legislation at least two of these plants will be in operation, and some acres in Idaho will go to another factory; thus, the decline in acreage is expected to be considerably less than indicated in January. In addition, the Colo-Kan farm co-op will close its plant in Colorado. Several small cane mills have closed in Louisiana, although 1979 sugarcane production is projected to be slightly above last year.

Throughout the last session of Congress and since, we have been earnestly pursuing an agreement among sweetener interests for a legislative proposal to establish a workable sugar program. Throughout the past 9 months, the areas of agreement have broadened very significantly. And, while the sugar policy recently announced by the Administration will not

please everyone, I believe it has wide acceptance and support. I want to briefly touch on its principal elements.

Administration policy continues to support a viable domestic sugar industry. That means fair support levels for sugar producers. We propose a domestic market price objective for 1979 of 15.8 cents per pound. The Administration will accept a measure that authorizes payments of up to one-half cent a pound. However, we will not accept a domestic market price objective for 1979 in excess of 15.8 cents.

The Administration sugar program is designed to equitably protect the economic interests of all those affected--the sugarcane and sugar beet producers, processors, refiners, users, consumers, and exporting nations--and is consistent with the provisions of the ISA. It is a sweetener policy which is balanced and fair from a national and international perspective.

We believe stabilizing imports at recent historic levels is a straightforward means of undergirding both our domestic and international objectives. This implies sugar imports in the 4.8 to 5.2 million ton range (exclusive of imports from Puerto Rico, which are covered by the U.S. sugar program).

We believe the rights and earnings of sugar industry workers must be protected. Fair wage standards are a long tradition in sugar legislation. These simply ensure workers will enjoy the same protection of income and comparable increases accruing to growers and others in the industry. We propose a base wage for sugar workers in sugar supply year 1979 of $3.20 if total support is 15.8 cents--and a proportionally higher wage base if total support is increased.

While H.R. 2172 would accomplish many of these objectives, we would prefer to see changes in some sections. These I will deal with specifically.

Title I authorizes U.S. participation in the International Sugar Agreement once that agreement is fully ratified. We support the ISA and we support the provisions of this title. Moreover, we believe that any domestic policy must be consistent with the objectives and provisions of the ISA. Neither can be effective without the other.

Title II provides for domestic price objectives and payments to achieve assured returns, duties on imported sugars to protect the domestic market price, and for quantitative restrictions if the duty system fails to protect the domestic market price. It also contains sections on prohibited acts, exemptions and a number of other technical provisions.

For the 1978 sugar supply year a domestic market price of 15.25 cents is provided, plus a one-half cent payment. For 1979 and succeeding years, the price objective is increased by an index based on the difference between two moving averages. These are based on costs of sugar production, exclusive of land cost. A one-half cent payment is added to the price objective as needed to make up the difference between the average daily price for U.S. raw sugar imports, and the price objective.

The price objective is to be achieved by special import duties and by quotas if duties do not effectively maintain the market price at the level of the price objective.

The Administration believes legislation should become effective with the 1979 crop, not 1978.

When no legislative solution could be achieved last session, the Administration, after consultation with Congressional leaders, moved to establish a market price objective of 15 cents, using existing authorities. Under these authorities, duties and fees will continue to be adjusted--quarterly and within quarters--to realize the price objective. The Administration will not support an additional increase in the domestic

market price objective for the 1978 crop.

Similarly, we will not support a payment for 1978 crop sugar. As you know, there is no provision in the budget for payments for 1978.

Because the price objectives in H.R. 2172 are determined entirely by formula after 1978, there is no discretion for the Secretary to adjust prices in the event that the objectives of the program are not met.

Effectively, the formula approach is an effort to fine-tune price incentives for four years in advance with no opportunity to change these incentives if they do not work. And, they might not. Costs are a very important consideration upon which to base prices. But costs are not necessarily the only consideration; prices adjusted on the basis of a moving average of selected costs could very well turn out to be too high or too low, depending on events in the future--events which are impossible for us to forsee now.

We recommend a different approach. We propose that the purposes of the program be plainly spelled out. These are first, to assure the economic viability of the domestic sugar industry, and, second, to stabilize sugar imports at recent historic levels. The Secretary should be specifically charged with the achievement of these objectives.

He would achieve them by determining a total level of support which would be based on cost of production, and on other factors as well, such as:

- o domestic sugar and high fructose corn syrup (HFCS) production,
- o the relationship between sweetener supply and demand,
- o the relationship between sweetener supply and imports, and
- o the importance of sweeteners to agriculture and the national economy.

Finally, the Secretary's determination of total support would be required to be between the weighted national average cost of producing sugar and the weighted national average cost of producing sugar and HFCS.

Each year the Secretary would make a determination of the appropriate level of total support required, following the procedures and considering the factors I just described. Consistent with that total level of support, he would determine a market price objective and a payment level. The payment level would not exceed one-half cent in any year. Payments would be made at the close of the sugar supply year; we would not propose to advance any share of these payments before that time.

We would propose that the Secretary be explicitly authorized to operate a price support loan program at a level consistent with the total support and market price levels established.

Sugar is an almost unique industry in that the Government not only sets a price floor, but it restricts domestic prices as world prices approach domestic price levels. Whenever world prices move up, our duties and fees are adjusted downward so that our domestic prices remain at the domestic market price objective.

In such a situation, it is especially important that the Secretary have discretion to adjust price incentives--just as it is important that producers have assurance that the prices they receive will move with costs, so that they may make plans on their future production.

I would also like to comment on the farm labor provisions in H.R. 2172.

We believe that the farm labor provisions should be administered by the Secretary of Labor. The Administration did agree to support the compromise bill last fall in which the labor provisions were administered

by the Secretary of Agriculture. There is a precedent from the old Sugar Act for having the Secretary of Agriculture responsible for determining both price objectives and wage standards.

However, it has consistently been the position of this Administration that the Secretary of Labor should have responsibility for programs that are mainly labor programs, and that this program should be no exception. It is far more consistent with the general duties of the Secretary of Labor for these provisions to be administered by him. He has on-going programs, available mechanisms and the expertise to administer them, and to do so more consistently with national labor policy. It would, in fact, be inefficient and wasteful for USDA to develop such mechanisms and expertise for this single program. It would be duplication.

A further concern is the schedule of wages proposed in H.R. 2172 may be too low for 1979. The 1978 support for sugar consists of a national average loan level of 14.73 cents per pound (raw value) and a domestic market price objective of 15 cents per pound. A proportional increase in support from those levels to 15.8 cents per pound would justify an increase in wage rates from the $3.00 1978 level to between $3.16 and $3.22 for 1979, or about the $3.20 level suggested in the bill.

However, if the Congress should decide to provide sugar producers a one-half cent payment for 1979, a proportional increase in wage rates would be justified. Equitable increases then would range from $3.26 to about $3.32--about an additional 10 cents per hour.

We would recommend that the wage rate for the 1979 sugar supply year be at least $3.20 and that it be increased proportionally if total support levels for growers are increased.

Mr. Chairman, we are preparing a detailed report on H.R. 2172 as you requested which will be completed in the next few days. I request that it be included in the record.

Again, I would like to commend you and your committee for your work on this important bill. We agree with your objectives, and we would like to work with you to develop a bill that can be passed and signed into law early this year.

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